



# LFC Newsletter

A publication of the

**Legislative Finance Committee**

Senator John Arthur Smith, Chairman

Representative Luciano "Lucky" Varela, Vice Chairman

David Abbey, Director

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## From the Chairman

### In the Public Eye

Later this month, the Legislative Finance Committee will publish its 10th post-session review. Legislative sessions are fairly fast-paced and tend to end in a flurry of activity that can be hard to follow. The post-session review is an opportunity to take a look at what happened with some clear-eyed perspective.

While the review is written for the Legislature, the publication is also intended for public consumption. Although the committee has always served as a watchdog for the public, increasingly that role has included the dissemination of staff analysis of that information. Even the budget recommendation has been redesigned in recent years to make its wealth of data more accessible and interesting to the public. Many other committee publications are now available to the public through the Internet. In many ways, the committee is a clearinghouse of information on state government and it is fitting that the committee share as much of that information as possible with the taxpaying public.

The public might not think of government finances as something that touches their lives but our lives are touched almost every day by state spending. Whether a mother has to scramble for afternoon care for her 5-year-old or can take advantage of full-day kindergarten; whether the highways are patrolled at 2 a.m.; whether the restaurant kitchen is clean; whether district court can keep track of all its criminal cases; even whether or not the turn of the spigot produces clean water — all of these things are affected by how the Legislature spends the state's limited dollars.

It's just good government that the public know what its government is doing and how spending decisions are made. The efficient and effective management of government is an issue that is important to anyone who pays taxes, anyone who benefits from or provides tax-supported services and anyone who allocates tax dollars.

**Senator John Arthur Smith**  
Chairman

# Dragging Economy Clouds Forecast

The General Appropriation Act provides for 6.3 percent growth in general fund spending in FY09, but growth in FY10 could be limited because of the sliding economy, LFC staff analysis shows.

Revenue estimates for FY10 indicate the state budget can only grow by 3.2 percent in the budget year that starts in July 2009 and those estimates could drop, according to the *LFC Post-Session Review*.

The LFC is scheduled to hear a preview of the report at 10 a.m. March 17. The review is set to be published later this month.

The report says general fund reserves are strong at 10.3 percent of ongoing FY09 spending, reflecting legislative concerns about revenue forecasts.

"The economy has taken a dramatic turn for the worse with many national economists predicting that the U.S. is in recession," the report says.

At the same time, energy prices are strong, with oil at more than \$100 a barrel.

"These two forces — a slowing economy and rising energy prices — will continue to make the revenue forecasts volatile," the report says.

After vetoes, the General Appropriation Act, together with the "feed bill" that pays for legislative expenses and the supplemental spending bill called "junior," appropriates \$6.035 billion for recurring spending.

Although recurring revenue is projected to grow just 2.4 percent in FY09, stronger than expected revenue growth

and controlled spending growth in FY08 allowed for the higher increase in FY09 spending.

The final budget provides a small cushion in case revenue comes in lower than expected.

General fund spending on public schools will increase 5 percent under the act and includes \$14 million for an additional instructional day as a first step toward possible implementation of a new funding formula.

General fund spending on higher education will increase 4 percent.

The general fund appropriation for Medicaid will increase 13 percent.

Spending on public safety will increase 6.2 percent.

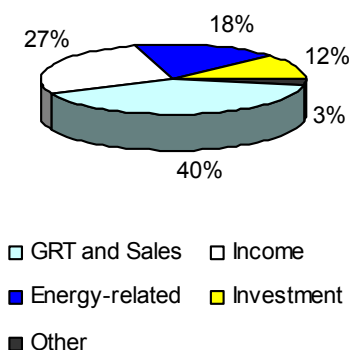
The overall 6.3 percent growth in state spending, the average for the last decade, is less than the growth in personal income in

New Mexico. State spending growth as a share of personal income is the lowest in a decade.

In addition, the share of general fund revenue attributable to energy, at 20 percent in FY06, is starting to decline to more typical levels.

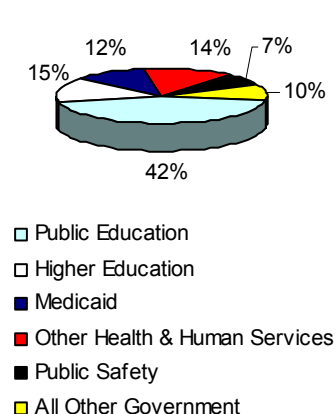
The General Appropriation Act provides \$106.2 million from the general fund for special appropriations, including \$24 million for highway maintenance, \$18.5 million for shortfalls in state road spending, \$7 million for the job training incentive program, \$5.6 million for a faculty endowment fund at the state's colleges, and \$5 million for shortfalls in public school districts.

**FY09 Recurring General Fund Revenues: \$6 Billion**



Source: Consensus Revenue Group Dec 2007 (adj. for 2008 legislation)

**FY09 Recurring General Fund Appropriation: \$6 Billion\***



\* Includes Laws 2008, Ch.3 (HB2), Ch.1(HB 1)  
Source: LFC Files

# State Investments Decline

The state lost money on the investment of its permanent and pension funds during the last quarter of 2007, the first losses since the quarter that ended March 2005.

Total fund investment returns ranged between negative 1.2 percent and negative 1.9 percent for the quarter, lagging their respective benchmarks across the board.

The land grant permanent fund and the severance tax permanent fund, both managed by the State Investment Council, each lost 1.2 percent. The Public Employee Retirement Association reported losing 1.5 percent, while the Educational Retirement Board reported losing 1.9 percent.

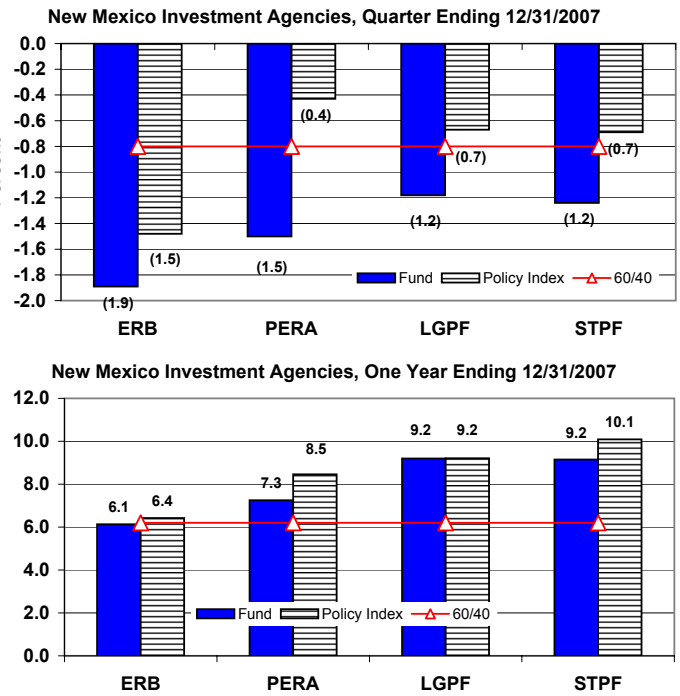
Although showing the biggest percentage decline for the period, ERB performed closest to its benchmark.

The “60/40” fund used as a benchmark lost 0.8 percent for the quarter, outperforming all four state funds.

The funds’ decline is tied to the drop in the stock market driven by troubles in the home mortgage industry and the uncertain economy.

While performance for the quarter was down, all of the funds had positive returns in 2007.

The report for the second quarter of the fiscal year will be presented at the committee meeting on March 17 and then posted to the LFC website.



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## On the Table

### Water Concerns Nix Dairy Plans

The Environment Department has denied a discharge permit for a proposed dairy at Truth or Consequences because of possible contamination of the Rio Grande. The ParaSol Dairy had asked to discharge up to 8,000 gallons of dairy wastewater a day from the site less than two miles from Caballo Lake.

### NM Trade Balance Tips

New Mexico’s exports to other countries dropped 11 percent in 2007, although exports to Mexico and Canada were up. The decline was fed by a drop in exports to Asia, largely the result of a drop in the export of computer chips and integrated circuits by Intel. However, New Mexico exports to Mexico grew by 45 percent to \$375 million and exports to Canada grew by 21 percent to \$236 million. The spike in trade with Mexico is due to large increases in exports of iron and steel articles and polyurethane plates and sheets. The largest category, exports of goods valued less than \$20,000, mostly used vehicles, declined in 2007.

### Border Busy

Commercial traffic through the Santa Teresa port of entry was up 30 percent in January compared with the same month a year ago. In January, northbound commercial crossings totaled 3,695 vehicles. The International Business Accelerator reports this was the fourth consecutive month that commercial traffic increased at Santa Teresa by approximately 30 percent.

### Workforce Agency Meets Fed Standards

The Workforce Solutions Department has met federal unemployment insurance performance measures for the first time in 22 years, resulting in the federal government lifting a corrective action plan. The measures cover the efficiency of determining eligibility for benefits and the timeliness of payments. New Mexico exceed all federal targets.

### NMSU To Test Unmanned Aircraft

New Mexico State University and the Federal Aviation Administration have signed a cooperative research and development agreement to help NMSU become the primary test center for unmanned aircraft systems. Under the agreement, the flight test center will be headquartered in Las Cruces and operated by NMSU’s Physical Science Laboratory. The unmanned aircraft program also uses the Playas Training and Research Center run by New Mexico Tech.

### Bad Inspection Will Cost Millions

The state will lose \$1.3 million a month in federal funds until Fort Bayard is recertified as a Medicaid and Medicare provider, the Department of Health reports. The facility, a Health Department managed by GEO Care, lost its certification after a negative federal inspection. GEO Care has contracted with Health Care Management Specialists to help the facility make the improvements needed for recertification. GEO Care is currently paid \$300,000 a month to manage Fort Bayard.

### Transitions

LFC has hired Becky Gutierrez as an economist. She replaces Stephanie Schardin, who is now the deputy director of the state Board of Finance. David Martinez, formerly a Department of Finance and Administration executive analyst, is the new family services director at the Children, Youth and Families Department. Martinez, who previously served in the same position, replaces Jack Callaghan, who retired in November.

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